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# East Europe Report

ECONOMIC AND INDUSTRIAL AFFAIRS



FOREIGN BROADCAST INFORMATION SERVICE

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6 December 1984

# EAST EUROPE REPORT

## ECONOMIC AND INDUSTRIAL AFFAIRS

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INDUSTRIAL, TECHNOLOGICAL COOPERATION WITH USSR OUTLINED

Sofia ZEMEDEL'SKO ZNAME in Bulgarian 10 Nov 84 p 3

[Article by Prof Neshto Tsarevski, director of the Institute for International Relations and Socialist Integration Under the Presidium of the Bulgarian Academy of Sciences: "Of Decisive Significance for the National Economy"]

[Text] The dynamic development of all-round collaboration between Bulgaria and the USSR has been one of the basic factors in Bulgaria's socioeconomic growth during the entire 40-year period since the victory of the socialist revolution in our country. It has helped in successfully laying the material and technical base of socialism in our country as well as in the high and steady rates of our economic growth.

Bulgarian-Soviet economic relations have constantly been broadening and improving. There was a qualitatively new stage in their development in the 1970's with the adopting of a policy by the BCP and CPSU of all-round collaboration and integration between the two countries. The signing of the General Plan for Specialization and Cooperation in Material production between the two countries in 1979 and the elaboration of 36 sectorial programs for implementing it provided a new impetus for the further planned coordinating of the Bulgarian economy with the Soviet national economic complex over the long run. In the process of preparation is a long-range program for further development and extending economic and scientific-technical collaboration and integration between Bulgaria and the USSR for the period up to the year 2000.

The adopted documents and planned measures outline the prospects for long-term dynamic development of Bulgarian-Soviet relations in material production. As is known, collaboration in the material sphere has played a crucial role in the industrialization of Bulgaria. With Soviet economic and credit aid we have built more than 300 major economic enterprises and another 120 are in the process of construction and reconstruction. The production capacity established with Soviet aid provides around 60 percent of Bulgaria's industrial product.

Specialization and cooperation [subcontracting] are the basic area of collaboration and integration between Bulgaria and the USSR in material production. Some 170 specialization and cooperation contracts are in effect between the two countries. Due to specialization and cooperation, our country has had an opportunity to build capacity for large-series production of certain articles and this provides high effectiveness. Here the Soviet Union has provided a market for the basic portion of our specialized production.

In Bulgaria, specialization and cooperation have undergone greatest development in machine building and this has become the basic sector of our industry. Our specialization has had emphatic success in materials handling machine building, electronic computer and office equipment, agricultural machinery and tractors, power and electrical engineering equipment, communications equipment, means of transport and so forth. With the construction of the new combines for heavy machine building in Radomir and Ruse and the Chemical Machine Building Combine in Khaskovo, the material-technical base will be broadened for Bulgaria's participation in international specialization and cooperation in machine building. We should also note our successes in the development of the electrical engineering and electronics industries and these are the results primarily of our production specialization and our scientific-technical collaboration with the USSR. By agreement with the Soviet organizations, Bulgaria has specialized in the production of 30 types of products in this sector and these are produced in large series. In the electronics area, our nation holds one of the leading places in the production of central processors, external storage units, systems for data preparation and teleprocessing, control devices and so forth. Bulgaria exports to the USSR large amounts of computer and office equipment, microelectric motors, automatic telephone exchanges, radio metering devices, manipulators and robots and other products where our industry has specialized in their production.

Bulgaria has established specialized production of around 600 machine building articles. Over the long run it is essential first of all to strengthen our positions in their production and maintain the quality of these articles on the world level in order to satisfy more and more markets for them. Along with this we must develop the production of new modern specialized articles which are the embodiment of world technical progress in such fields as electronics and electrical engineering, robotics, nuclear machine building, modern micro-processors, devices and systems supplied with the proper software and so forth. It is particularly essential to strengthen our specialization in articles which are less material and energy intensive.

International specialization and cooperation for Bulgaria have developed greatly in the chemical industry. It has specialized in the production of around 200 chemical products. An example of integration collaboration of the chemical industry is the building of the Soda Ash Plant in Devnya with the USSR taking an active part. At present, Bulgaria is one of the major exporters of soda ash in the world. It satisfies around 60 percent of the import requirements of the CEMA member nations for soda ash and 100 percent for urea. Extensive collaboration with the USSR has also been achieved in the area of mineral fertilizers, household chemistry, plant protection agents and so forth. Of great significance is the agreement between Bulgaria and the USSR under which our nation has specialized in the production and exports of energy-nonintensive, light chemical products (paints and semiproducts, light plastics, paint and varnish materials, chemically pure substances and so forth) which will be supplied to the USSR. In return for this the USSR will provide us with significant amounts of heavy, energy-intensive chemical products (ammonia, methanol, polyethylene and so forth). This specialization is particularly favorable to Bulgaria as it gives us an opportunity to focus on the production of less material- and energy-intensive production. In 1983, Bulgaria and the USSR signed a protocol for extending collaboration and specialization in the chemical industry over the



period up to 1990. This will help in further deepening the reciprocal production ties in this area.

Economic collaboration between Bulgaria and the USSR also encompasses other sectors of material production including metallurgy, power, light industry, agriculture and the food industry and so forth.

Of crucial significance for Bulgaria is collaboration with the USSR in resolving the raw material and energy problem. The Soviet Union has provided and is providing assistance in discovering and exploiting our natural resources. With this aid many of our VETs [hydropower electric plant] and TETs [thermal power plant] were built as well as the first AETs [nuclear power plant] near Kozloduy with a capacity of 1,760 megawatts. The USSR is also participating in its expansion and the preparations for building a second AETs near Belene with powerful reactors of 1,000 megawatts each.

Through regular trade the USSR delivers Bulgaria the basic imported quantities of oil, gas, coal, cotton, paper pulp and many other raw materials and energy sources. For expanding these deliveries, Bulgaria has participated in building a number of major projects on Soviet territory including the Ust-Ilimsk Pulp Plant, the expansion of the Arkhangelsk Pulp Plant, the Kiyembayev Asbestos Mining and Processing Combine and the Kingisepp Ammophos Combine, the Mozyr Yeast Plant, certain projects for iron-containing raw materials and ferroalloys at the Kursk Magnetic Anomaly, the Large-Diameter Gas Line from Orenburg to the Western Soviet frontier, the long-distance power transmission line between Vinitsa (USSR) and Albertirsa (Hungary) and others. For its participation in the construction of these projects, our nation will receive additional annual deliveries over the long-range period up to the end of the century of the following amounts: 75,000 tons of pulp, 50,000 tons of feed yeasts, 40,000 tons of asbestos, 26,000 tons of ammophos, 1.5 million tons of iron-containing concentrate (recalculated in terms of pure metal), over 5 billion m<sup>3</sup> of natural gas and other valuable raw materials and energy sources.

Bulgaria's all-round collaboration with the USSR in material production creates the prerequisites for the planned development of our economy. This is an important factor in protecting it against the crisis phenomena on the world capitalist market.

10272

CSO: 2200/44

## INTERNATIONAL AFFAIRS

### BRIEFS

**MINING COOPERATION WITH ROMANIA**--The eighth meeting of the Polish-Romanian working group for cooperation in the extracting industry ended in Silesia on 9 November. A protocol was signed which contains detailed plans for further cooperation. The cooperation entails mutual supplies of mining equipment and machinery and the joint production of mechanical coal diggers and transporters, among other things. [Summary] [Warsaw TRYBUNA LUDU in Polish 10-11 Nov 84 p 2 AU]

**TRADE WITH DPRK**--A Polish-Korean protocol on mutual supplies of goods and payments in 1985 was signed in Warsaw on 9 November. The supplies covered in the protocol will exceed the level of supplies foreseen in the 1981-85 agreement by about 10 percent. The following are some of the more important goods that we will receive from the DPRK next year: One hundred thousand metric tons of roasted magnesite, 4,000 metric tons of talc, 2,000 metric tons of electrolytic zinc, 2,000 metric tons of PVC, plus insulators, perfume oils, table porcelain, and other commodities for the domestic market. In return we will supply the DPRK with ships' engines and equipment, mining equipment, medical and laboratory measuring equipment, coke, sulfur, and pharmaceuticals. [Text] [Warsaw TRYBUNA LUDU in Polish 10-11 Nov 84 p 2 AU]

CSO: 2600/184



INCREASED USE OF CHEMICAL FERTILIZERS, PESTICIDES

Tirana BUJQESIA SOCIALISTE in Albanian Aug 84 pp 1-4

[Article by Aqif Dabulla, head of the Department of Agricultural Soil Science in the Higher Agricultural Institute, Tirana: "The Use of Chemicals--a Great Success in Our Socialist Agriculture"]

[Text] The intensification of our agriculture in general and, in particular, the maintenance and continual increase of soil fertility in order to obtain high and constant yields of all agricultural crops and livestock cannot be understood and realized without the introduction and wide application in agriculture of the achievements of the science of chemistry. This is the reason that, under the leadership of the party, the use of chemicals in agriculture during the 40 years of people's power has made great strides in all directions. Thanks to measures taken for the training of personnel, the development and expansion of scientific research work, as well as the creation and augmentation of the material and technical base, great changes have been made in land fertilization and in the increase of agricultural and livestock products.

Before the liberation, no study had been made of the land. Chemical fertilizers, pesticides and other chemical products were completely unknown in agriculture. For this reason, agricultural crop yields were at a very low level.

In order to introduce the use of chemicals gradually in agriculture, immediately after the liberation, the party took measures for the training of the necessary specialized cadres, including agronomists, agricultural chemistry teachers, phytopathologists, entomologists, chemists, veterinarians, toxicologists and other specialists who are concerned with soil and plant chemistry, plant and animal nutrition, with illnesses and the ways of combatting them, with pests and weeds, etc. This was a great victory and a strong basis for the successes achieved in increasing agricultural and livestock production.

The quantity of chemical fertilizers, pesticides and other chemical products used in agriculture was increased from year to year until production in the country of considerable quantities of varied types was achieved. We now use an average of about 145 kg of active chemical fertilizer per hectare for every hectare of land, outstripping many countries of the world.

Use of Chemical Fertilizers and Pesticides in Comparison with 1960

<u>Chemical products used</u>	<u>Number of times more</u>		
	<u>1960</u>	<u>1970</u>	<u>1980</u>
Chemical fertilizers	1	6.3	12.0
Pesticides	1	7.3	12.3

Suffice it to say that in order to determine factors harmful to the land, 30.5 percent of the arable land surface has been subject to analyses. This is a great success. In comparison with 1960, the surface treated with chemicals has increased by almost 22 times. As a result, the damage caused by diseases, pests and weeds has been greatly reduced. This has also been achieved as a result of the good organization of observation and detection work.

In our country, we now produce granular and powdered superphosphate, phosphoric flour, ammonium nitrate, urea as a fertilizer and as an animal fodder, ammonium sulfate and dozens of different pesticides to combat diseases, pests and weeds. Experiments have been carried out and attempts are being made to launch into wide production several micro-fertilizers, such as zinc sulfate, manganese and copper, as well as chemical compounds which are used to supplement and enrich livestock feed such as bicalcium phosphate, etc. Studies are being made to produce complex fertilizers in our country which have great nutritional value for crops and whose use has great economic advantages. The stock of tools and machines that are concerned with the use and distribution of fertilizers and pesticides on a scientific basis has increased in number and has been strengthened.

The use of chemicals in agriculture, accompanied by the application of other well-studied and harmonized complex agrotechnical measures, has brought about great improvements. Suffice it to say that during the last 10 years alone the humus content of the soil has increased by 3-7 percent, the phosphorite content by 10-20 percent, etc. Studies that have been made recently by the Institute of Soils and the Faculty of Agronomy of the Higher Agricultural Institute demonstrate that a qualitative improvement has occurred in the biological, chemical and physical water state of the soil, that there has been an increase in soil respiration, that the concentration and circulation of carbonic gas have grown and that there has been an increase in the life activity and energy of the soil. This has certainly brought about changes in the increasing usefulness of fertilizers, pesticides and other chemical products that are used.

The production and wide use in our country of chemical fertilizers, pesticides and other chemical compounds for enriching and improving the soil and combatting diseases, pests and weeds has made it possible to achieve a pronounced growth in the yield of all agricultural crops and, consequently, the nutritional base for livestock has been augmented and improved and, together with this, the number of products has also increased. In comparison with 1960, 2.5 times more grain was produced in 1970 and 4.5 times more in 1980. In 1970, 3.2 times more vegetables were produced, while in 1980 the figure was about 5 times more.

During this time, there has been a great increase in the production of sugar-beets, potatoes, sunflowers, tobacco, forage crops, etc.

Many studies made by various units and by our scientific institutions indicate that by using the optimal amounts of fertilizers, crop yields have been doubled and tripled. Thus, although soil conditions are the same, where use is made of the optimal amounts of nitrogen, phosphorus and potassium fertilizers, there is an average yield of 51.9 quintals per hectare of wheat or 307 percent more. The yield of corn is 81.9 quintals per hectare or 339 percent more; the cotton yield is 32.6 to 35.9 quintals per hectare or almost double the amount in comparison with unfertilized soil. Today we have many remarkable units, such as the agricultural enterprises of Plase and Maliq, in Korce District, Grecali, in Pler District, Vrine, in Sarande District, and "8 Nentori," in Durres District, where high yields of agricultural crops are obtained by using mineral fertilizers effectively.

In order to improve soils with low fertility, such as salty soils, acid soils, etc., the production and wide use of lime and gypsum has been placed on the proper bases.

Achievements until now in the area of intensified chemical utilization have included, among other results, the broadening and deepening of continual and persistent study and experimental work.

In the area of agro-chemistry, which is the broadest and most active field involved in the obtaining of high yields, beginning in 1952 a series of studies with great scientific and practical value have been made.

These studies and the whole development of our agro-chemistry have been and continue to be characterized by a dialectical and materialist attitude toward the evaluation of processes which influence the retention and increase of soil fertility, crop nutrition, etc. It has conducted a harsh struggle, arguing with concrete facts against realistic (as published) reactionary views regarding soil fertility and the role of fertilizers and other chemical products in agriculture. Our agro-chemistry, the maintenance and increase of soil fertility, together with the obtaining of high yields and the rational use of fertilizers, pesticides and other chemical products rests on the application of a complex of agrotechnical measures, giving importance and priority, according to the case and conditions, to one or another factor, but without underrating any of them. At the present time, the main task is to find ways and methods to harmonize all factors in the best manner.

The whole of agrotechnology and especially the nourishment, fertilization and protection of crops, etc., must ensure without fail the required participation of growth factors which bring actual production as far as possible into line with the maximum biological capabilities of various agricultural crops. From the standpoint of fertilization, an increase in the humus and phosphate content of soil is aimed at.

Advanced experience proves the fact that in the increase in the usefulness of chemical fertilizers and pesticides, a very great influence is exerted by improving the systematization of soils and the irrigation operation (drainage),

the integrated struggle against diseases, pests and weeds, the application of crop rotation, sowing on a definite schedule, ensuring the number of crops per hectare, the selection of crops in accordance with ecological conditions, the use in large quantities and on a scientific basis of all organic fertilizers, mixing and composting them with chemical fertilizers, the use of simultaneous fertilizing (together with sowing), etc., etc. The degree of usefulness of important factors concerning the application of chemicals in agriculture depends upon the harmonization of these matters.

The studies and experiments that were made in the area of application of chemicals to agriculture brought about considerable progress in the correct resolution of many agrotechnical questions, and at the same time, we also prepared the conception, the necessary framework and the technical and material base to pass into a higher phase: to the great national action of agricultural land study which was accomplished with full success for all the republic's agricultural lands in the record time of three years (1971-1973).

This action was concretized, among other ways, by the compilation of agro-technical maps of the humus, nitrogen, phosphorus, potassium and reaction of the land according to each section on the basis of these data, as well as those resulting from experiments, the work of determining the proper amount of organic and chemical fertilizers, the manner and time of their distribution, the utilization of soil chemistry improvements, etc. was clarified and simplified.

The data gained from the first agro-chemical study of soils opened new perspectives and paths for many studies in the field of the application of chemicals to agriculture.

The creation of the Institute of Soil Studies in 1971 opened a new phase in the history of the development of Albanian agro-chemistry and yielded a great quantitative and qualitative leap for agro-chemical studies. Together with the Institute of Soil Studies, agricultural laboratories were established in all districts and in some agricultural units. The Institute of Soil [Studies] and the central station for the protection of crops, together with the agricultural laboratories of the districts, established the first agro-chemical service bases in the republic.

On the basis of data from dozens and hundreds of experiments conducted in broad production and in our scientific institutions, the priority conclusion was made to apply nitrogen fertilizers to all of our crops and soils. It was decided to schedule the application of fertilizers to the crops sown in autumn and spring. The biology and infestation level of diseases, pests and weeds was known. On the basis of this knowledge, measures were worked out to combat them.

The party has set the task of continually increasing the fodder base for livestock. As is indicated by many studies, the use of various chemical substances has great importance in this direction as well. The use of products of chemical and biological synthesis permit fulfillment of all the needs of animals for physiologically active nutritional substances. Chemical compounds are taking priority in the preservation of livestock feed, as well as in the disinfection of their environments.



A continually greater importance is being taken on in animal husbandry by the use of synthetic nitrogen substances, such as urea, etc., which satisfy a great many of the protein needs of animals. According to data, the use of 1 kg of urea in low protein feed increases the amount of meat in cattle by 0.5 kg or 10 kg of milk in milking cows. In complex feeds, the introduction of a specific quantity of chemical compounds of sulphur, phosphorus, cobalt and other micro-elements greatly increases the usefulness of the urea and also improves the health of animals, making them more resistant to many illnesses and much more productive. The intensive development of animal husbandry sets a number of problems in scientific research work before the scientific workers of our country, the agro-chemists, chemists, veterinarians and other specialists, particularly with regard to the study of proteins, amino acids, vitamins and the mineral composition of materials that will constitute feed in order to improve the supply and the ways of preparing combined feeds, as well as to find sources of raw and supplementary materials, and the best chemical methods of preserving feed for animal husbandry.

Our socialist agriculture, in accordance with party directives and the teachings of Comrade Enver doxha, has been turned into a modern agriculture with large output and is proceeding with great successes to the glorious jubilee of the 40th anniversary of the liberation of the fatherland.

12249

CSO: 2100/5

ALBANIA

SCHEDULE OF INTERNATIONAL FLIGHTS TO TIRANA

Tirana ZERI I POPULLIT in Albanian 30 Oct 84 p 4

[Announcement from ALBTRANSPORT]

[Text] From 28 October 1984 to 30 March 1985, the schedule for international airlines stopping at Tirana will be as follows:

INTERFLUG--The air transport enterprise of the German Democratic Republic, flight IF 390/391, will fly every 2 weeks, on Monday (beginning 5 November 1984), on the Berlin-Budapest-Tirana route and the return route, arriving at Rinas Airport at 1125 hours and departing Rinas at 1225 hours.

JAT--The Yugoslav air transport enterprise, Flight JU-480/481, will fly every Sunday, on the Belgrade-Tirana route and the return route, arriving at Rinas Airport at 0800 hours and departing Rinas at 0900 hours.

OLYMPIK--The Greek national air transport company, Flight OA-115/116, will fly every Tuesday, on the Athens-Ioannina-Tirana route and the return route, arriving at Rinas Airport at 1050 and departing Rinas 1150 hours.

TAROM--The Romanian air transport enterprise, Flight RO-251/252, will fly every Wednesday on the Bucharest-Tirana-Rome route and the return route, arriving at Rinas Airport from Bucharest at 0900 hours, departing Rinas for Rome at 0950 hours, returning from Rome to Rinas at 1400 hours and departing Rinas for Bucharest at 1500 hours.

MALEV--The Hungarian air transport enterprise, Flight MA-430/431 will fly every Thursday, on the Budapest-Belgrade-Tirana route and the return route, arriving at Rinas Airport at 0945 hours and departing Rinas at 1045 hours.

Note:

--The schedules given above are based on the local time of the country.

--Passengers should be at Rinas Airport one and one-half hours before departure time.

--There is bus service from the ALBTRANSPORT office to transport passengers from Tirana City to Rinas, for each flight.

CSO: 2100/11



## KEY AREAS IN INTENSIFICATION PROGRAM IDENTIFIED

Prague HOSPODARSKE NOVINY in Czech No 38, 21 Sep 84 pp 1, 4

[Article by Dr Frantisek Vencovsky: "Key Areas"]

[Text] The need to switch our economy to full assertion of the factors of intensive growth has come more sharply into the forefront of attention in recent years, as a general and permanent solution. The complexity of the conditions at the start of the 7th Five-Year Plan demonstrated that this orientation is not only a matter of greater efficiency or national income's faster growth, but also of economic balances, perhaps even predominantly so at a certain stage.

The measures introduced in 1981-1983 to restore economic balance have been fully in accord with the intensification concept's logic and have been directed at the areas that primarily will decide the success or failure of the intensification objectives: the area of production's energy and raw-material intensity, the area of labor productivity, and the area of value and finance.

## Without Requiring Additional Resources

The decisive intensification objective has been formulated unambiguously: the growth of national income--or, in other words, essentially the creation of new value--will not be based in the coming years on as great an increase in the inputs of fuel, power and raw materials as we somehow have come to expect and regard as natural. Here any extrapolation of the development to date is ruled out: the economy simply cannot tolerate any continuation of this development. The only solution is the growth of national income based on the more efficient utilization of energy and raw materials, and of production assets and manpower as well.

A comparison with years past clearly shows the outlines of this problem. By the end of the 5th Five-Year Plan, in comparison with its first year, petroleum consumption was higher by 6.0 million metric tons; the consumption of natural gas, by 2.0 billion cubic meters; and of electricity, by 15 billion kWh. By the end of the 6th Five-Year Plan the increases over its first year were, respectively, 3.1 million metric tons, 3.8 billion cubic meters, and 11.6 billion kilowatt-hours, and so on. We imported 7.1 million metric tons of grain under the 5th Five-Year Plan, and 7.8 million metric tons under the 6th. Imports of iron ore, nonferrous metals, etc. increased. And we used foreign credits to

pay for them. In the coming years, however, these important material inputs will be stagnating: only in exceptional cases may we expect a moderate rise of imports, and import will even decline in the case of some raw materials.

With the relatively smaller inputs we will have to produce more national income: enough to ensure the desired rise in the standard of living, the needs of defense and capital investment, and the new requirements in conjunction with solving the urgent environmental problems. In the 1970's, the actual real growth rate of the national economy averaged 4.8 percent a year. It was based on the growth of production through the use of increased material inputs. The need to attain only two-thirds of this growth rate, but without a commensurate rise of the inputs of energy and raw materials, indicates the demanding nature of intensification.

We should add, moreover, that in the case of all the decisive items we are talking about inputs procured through import. This applies not only to petroleum and natural gas, but essentially to all of metallurgy. Domestic mining supplies only 4 percent of the iron ore for the output of ferrous metals; the rest is imported, including 83 percent from the Soviet Union and 13 percent from nonsocialist countries. The situation is similar in the case of nonferrous metals. Of importance here is not only the volume, the number of tons, but the price impact as well. As the mining conditions become more and more difficult, our own mining costs are rising. For example, the labor costs of mining a ton of coal have risen from approximately 58 korunas under the 6th Five-Year Plan, to 74 korunas under the 7th Five-Year Plan. The foreign-exchange costs of import also are rising, due to the higher fuel and energy prices in the world. During the past eight years--i.e., since 1975--the world-market prices of petroleum have increased by 172 percent; of nonferrous metals, by 45 percent; of iron ore, by 8 percent, etc.

This first glance at the lower volumes of energy and raw-material resources that we can expect in the coming years might tempt us to doubt whether the path of our economy's further development is realistic or feasible at all. But such skepticism or pessimism is not warranted. Judging by how its structure and supply have developed so far, our economy has adequate fuel, energy and raw-material resources in comparison with the economically developed countries. It will suffice to mention, as is done usually, the per capita output of steel, 1,975 kilograms; of plastics, 62 kilograms; of electricity, 4,860 kWh, etc. Thus the stagnation of material inputs into the economy cannot be regarded as something that will create for us a situation more difficult than for other countries.

#### Questionable Production Structure

The solution, which basically reduces to the requirement of generating more national income from relatively smaller volumes of available material resources, will proceed in two directions:

--Toward making our existing production more economical and more efficient, partially by eliminating losses and utilizing the available reserves, and partially by innovating the technological processes, design approaches and product parameters, by improving quality, using secondary raw materials, etc.

It will suffice to cite as an example steelmaking in the developed capitalist countries whose per capita steel output is about the same as ours. In 1980, the EEC countries achieved average export prices of 0.54 dollar/kilogram for their ferrous metallurgy products (and Austria as much as 0.70 dollar/kilogram), in comparison with our average of only 0.35 dollar/kilogram.

--In the direction of structural changes, which will mean entering industries that are in accord with the world trend in research and development, and with the needs of our economy's effective participation in the next phase of CEMA integration. In other words, we will have to seek a solution in a production structure of the economy that is characterized by production's lower energy and raw-material intensity, and its higher R&D and skilled-labor intensity.

There are debates on how balanced and realistic both these directions are, and what they will be able to contribute. It appears that the economy's intensification by making its existing production structure more economical and more efficient is the essential first step. For this is the least investment-intensive way of optimally utilizing everything that is already available, and of exerting pressure for the practical application of R&D results in the sectors in which we have traditions and experience.

But this is not a path that by itself will lead us entirely to our goal. It has its limitations. It would obviously be unrealistic to expect that intensification, without substantial changes in our existing production structure, will enable us to achieve such an enhancement of our inputs that can ensure the desirable sustained growth of national income. In other words, by making our stagnating production structure more economical and more efficient we cannot achieve results that could offset the imbalance of this production structure in terms of the domestic needs and possibilities, and of sustained efficient participation in the international division of labor as well.

In the early 1980's, our engineering industry is earning on average 2.70 dollars per kilogram of export to Western Europe, which is only a third of the developed capitalist countries' average, and 1.67 dollars per kilogram of exported durable consumer goods, which is barely half of the Western average. But these are differences so great that they require a structural solution if we are to overcome them successfully.

Our production structure is questionable from the viewpoint of the output's efficient use, and of the value-creating process as well, primarily in the sense that the share of metallurgical production is intolerably high in generating national income and earning foreign exchange, in comparison with the world trend of research and development and also in view of our own raw-material resources. Within this production structure, the chemical industry's product structure is unsatisfactory, the production and use of microelectronics are lagging, and also the disproportion between the levels of livestock production and crop production persists.

#### Balance of Development and Disinvestment Programs

The efforts to change the production structure have concentrated to date predominantly on formulating and implementing programs that tell us mainly what

"has to be developed" or, in other words, in what to invest and what to treat preferentially in terms of its rate of development. The usually cited characteristic of this process is an increase in the share of progressive and developing industries within the total increase of production. However, this view is too one-sided: it obscures the essential problem and fails to take the relationship among the national economic proportions into account. For equally important--and obviously more difficult to implement under the given conditions--is the process of winding down those industries that fail to meet the national economic criteria of intensification. The restructuring of production must proceed with disinvestment and development in balance.

The implementation of disinvestment programs will be very complicated. They must respect the socialist economy's principles; in other words, they must disinvest, cut back production and solve its entire restructuring, without any negative effects on the living standard and income security, while maintaining the national economy's proportions. Specifically this is the factor that is not always fully appreciated and is sometimes overlooked.

We must not underestimate also the extent to which our production structure is predetermined, not only by the existing stock of fixed capital, but also by the existing structure of skills, particularly of the technical personnel, and by the established production programs, investments, and assumed international obligations. It will suffice to mention the long-range programs of cooperation that actually determine the strategy of the CEMA countries' integrational cooperation through 1990.

The requirement that the disinvestment and the development programs must be balanced casts much stronger light on the basic problem of where to generate national income, where not to generate it, and how to generate it so that overall growth, parallel with the stagnation of material inputs, will not only produce resources commensurate with society's growing needs, but will do so more efficiently and simultaneously will strengthen the economy's balances. These interrelations, too, are sometimes overlooked when demanding faster growth as an absolute priority.

One must reckon also with the fact that the restructuring of production cannot avoid demands for investment, especially for investment in machinery. In the area of investment, therefore, we can expect a tighter situation than at present. It will obviously be essential for the center to retain firm control of the decisions regarding the directions of investment policy and the provisions for them. The schedule of work on perfecting the planned management system for the 8th and 9th Five-Year Plan also must take this into consideration.

#### Increase of Manpower

In the deliberations on the economy's intensification in the coming years, another specific factor that must be taken into consideration is the pronounced change in the size of the work force and in employment, as a result of a birth wave. The population of work age is expected to increase by about 257,000 in 1975-1985, but by 823,000 or more than three times as much in the next ten years.



This increase will unquestionably be a welcome resource for generating more national income but, according to the concept of the economy's intensification, only if the growth of national income is based on higher labor productivity. Thus we must not allow ourselves to be lulled by the view characteristic of extensive thinking: that there will be production if there is enough manpower. The solution will be the more demanding because it will aim not only for full employment as a self-understood requirement, but also for employment such that more and more value will be created per unit of human labor.

Decisions on using the increase in the population of work age must therefore be subordinated to the criteria of the economy's intensification. The point will be essentially how to channel this increase into the education process, and then into employment. The deliberations on restructuring production will thus include the priority considerations of the educational system's structure and professional capacity and, accordingly, the considerations of the increase in manpower and mainly of its allocation by professions.

The process of intensification affects also the shifts among the economy's sectors. The trend worldwide is toward the tertiary sector's growth (i.e., of services in the widest sense), at the expense of the primary [agriculture and the extractive industries] and secondary [manufacturing] sectors. International comparisons show that in 1985 the population per worker in the tertiary sector will be about the same in Czechoslovakia as it was in the FRG and France already in 1970 (about 5.3:1). This sector is far better supplied with manpower in Switzerland, Sweden and the United Kingdom.

The decisions on allocating the increase in manpower among the economy's individual sectors, and in general on redistributing workers among industries in accordance with the intensification objectives, will be very important also because such allocation must strive for creating more new value through higher labor productivity, so that the productive sectors may be better able to "sustain" the so-called nonproductive sectors after these shifts, and the nonproductive sectors may ensure the functioning of the economy better than up to now.

#### Focus on Value Criteria

Prices, money and market relations in general are the third area in which new factors will make themselves felt in the process of intensification.

Price ratios in the world have changed substantially during the past ten years and, together with them, so have our foreign-trade prices, to our disadvantage. From 1975 through the end of last year, our import prices have increased by 67 percent, but our export prices by only 40.5 percent. Thus we have not been able to offset the more expensive inputs into our economy with more expensive outputs. This is associated with the pressure to maintain balance-of-payments equilibrium and leads to compensating for the negative price difference by increasing the physical volume of export, instead of earning more foreign exchange with the given export volume. The higher procurement costs of our own sources of energy and raw materials have a similar effect.

When viewed in terms of value, therefore, the basic objective of the economy's intensification becomes much clearer: to generate more national income, parallel with reducing production's energy and material intensity. It would not be enough to approach the solution of this problem merely from the viewpoint of the physical volume or tonnage. It is realistic to assume that in the next ten years, for example, the only moderate rise in the available volume of fuel and energy resources will be accompanied by a far greater rise of their prices, which means that labor productivity--expressed in value terms as growth of rational income--must be able to maintain positive input-output ratios, not only in foreign trade but in all economic operations as well.

Therefore the process of intensification is associated with new financial and costing criteria. There will be greater pressure to accumulate real financial resources and to use them more efficiently in the reproduction process, for the purpose of planning and the plans' implementation as well, at every level of management. The concept of further perfecting the national economy's planned management system is also in accord with this.

1014  
CS0: 2400/53



## TECHNOLOGICAL DEVELOPMENT OBSTACLE VIEWED

Prague HOSPODARSKE NOVINY in Czech 14 Sep 84 p 4

[Article by Eng Jiri Kundera, Economics Institute of the Czechoslovak Academy of Sciences, Usti nad Labem branch: "One of the Obstacles to Technical Development"]

[Text] Getting rid of worn-out and obsolescent fixed production assets creates an area for more effective application of research and development by means of investments for renovation. This also frees up other factors of production--labor, raw materials and energy--for rational use in connection with more modern equipment. In connection with this, there arises the question of whether we are liquidating enough assets and whether the volume and make-up correspond to the needs for intensification.

The average level at which obsolescent fixed production assets were being liquidated in the years 1976 to 1982 was relatively low (0.8 percent of the overall amount of fixed assets in the CSSR), not balanced between the years and had an overall tendency to decline.

### An Obvious Dependency

The amount of machinery and equipment liquidated was greater (1.7 percent of the overall amount of fixed production assets) than in the construction portion of the fixed assets (0.5 percent of the amount of fixed production assets) by about 3.4 times. These differences stem mainly from the longer use-life of buildings than of machinery. But just because of this fact, this relationship is unfavorable to the machinery and equipment inventory.

If we take the average useful life of buildings as 60 years and that of machinery as 15 years (their levels in 1982) and want the relationship of replacement to correspond to the relationship of useful life and the actual relationship of size, there should be at least four times as much liquidation of machinery as buildings. If we further take into consideration the fact that in comparison with buildings machinery gets obsolete much more rapidly, their liquidation (and subsequent replacement) should be even more rapid than that which corresponds to their physically useful life.

To assess the processes which are taking place within the replacement of fixed assets, it is important to break down the liquidation of obsolete and worn-out

machinery into the individual industrial branches and compare the development of their liquidation with overall investment activity in industry. Table 1 contains these data.

Table 1. Liquidation of worn-out machinery and equipment in industry (in Kcs millions in 1977 prices)

	<u>1975</u>	<u>1982</u>	<u>Index</u>
			<u>1982</u> <u>1975</u>
Industry as a whole	4,293	6,033	140.5
Electrotechnical industry	164	450	274.4
Energy industry	189	369	195.2
Machine Tool Industry	475	868	182.2
Fuel industry	755	1,184	156.8
Foodstuffs industry	346	526	152.0
Textile industry	320	288	90.0
Steel industry	598	465	77.8
Chemical industry	551	397	72.1

This table shows that the industrial branches with a sharply growing level of liquidating worn-out machinery and equipment are among the most progressive branches whose importance is constantly increasing.

On the other hand, we also have branches in which the rate of liquidation is slowing down. The differences between branches within industry are thus becoming greater, especially in relation to possibilities for the application of research and development. In this area, the gulf between branches of industry is enormous. The variational extent of the index of machinery liquidation in selected industrial branches is 202 percent.

The electrotechnical industry had the greatest increase in liquidation (in comparison with the growth in liquidation for industry as a whole), some 135 percent. On the other hand, the decline in the level of liquidation has been considerable. It was most significant for the chemical industry (compared to industry as a whole)--more than 60 percent.

#### Two Directions

These dependencies raise the question of the connection between changes in the level of liquidation of obsolete fixed production assets in the individual

branches of industry and changes in the overall volume of investment. To what degree does a decline, or, on the other hand, an increase, in the dynamics of investment in the individual branches of industry influence the internal investment structure? With a drop in the level of investments, is there not a more rapid decline in liquidation, and thus a change in the replacement relationship between developmental and replacement investments? And how do these processes relate to the tendencies of society as a whole toward intensification of replacement?

We can get answers to some of these questions by comparing the rapidity of growth in the liquidation of worn-out machinery (Table 1) with the rapidity of growth in investments overall (Table 2).

Table 2. Index of overall investment volume in industry in 1982 (1975 used as a base of 100)

Industry as a whole	126.7
Electrotechnical industry	159.7
Energy industry	152.0
Machine tool industry	108.9
Fuel industry	107.5
Foodstuffs industry	99.0
Textile industry	82.9
Steel industry	92.2
Chemical industry	100.4

The numerical data in the table point out certain specific features of the individual industrial branches, but they also show some general tendencies leading in two directions.

First of all, it is clear that with more active overall investment there is also more rapid liquidation, so that when the overall investment dynamics of the industrial branch is greater, there is a broader sphere created for the liquidation of worn-out machinery and equipment as well. Thus the branches of industry which are rapidly developing renew the make-up of their assets by replacements after liquidation. This phenomenon is very noticeable in the electrotechnical industry, but also in the energy industry and to a somewhat lesser degree in the machine tool industry. (These are branches which we usually connect with progressive changes in structure in connection with research and development applications.)

On the other hand, in branches where investment is slowing down, the rate of liquidation also decreases, but in a way that the dynamics of liquidation is

more sensitive than the decline in the dynamics of investment overall. This fact is especially typical for the steel and chemical industries. When those branches limit investment resources mainly to developmental investments and more significantly affect replacement investments, this puts further obstacles in the path of technical development through rational replacement of equipment in the fixed production assets.

In the years 1975 to 1982, we also find branches of industry which oppose the general tendencies described here. Their specific nature obviously is more of a determining factor. This is the case for the foodstuffs industry, for example, and to a lesser degree for the textile industry. But it can still be said that the general tendencies described above predominate in overall industrial development.

#### Differences Between Branches

These facts thus lead to different applications of research and development in the individual branches of industry, not only through developmental investments, but also by more radical changes in the structure of equipment in the fixed production assets, their more progressive or less progressive replacement. It is a serious fact that these different tendencies occur together with the process of improving planned management.

The low effectiveness of intensifying the national economy by insufficient application of technical developments and low levels of replacement of equipment in fixed production assets is significantly multiplied when even the developmental investments in a given branch are inadequate to infuse technical development. It may be that they are out of date in their make-up, for various reasons, and obsolete, or that the level and specific nature of the branch are not appropriate for the investment (for example, a change in the purpose of the investments, such as their use within the country rather than export, etc.).

It appears that insufficient liquidation of obsolete fixed production assets and low levels of progressive investment are one of the reasons for the slow application of research and development in our directions of intensification. To raise the effectiveness of intensification of socialist expansion of replacement, it is therefore essential to make more use of factors affecting the liquidation of obsolete fixed production assets in the system of planned management. This must be done in a way which will be an effective tool for the economic application of research and development in harmony with the goal of improving the system of planned management and in keeping with the laws of developed socialism.

6285

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## SUPPLIER-CONSUMER RELATIONS IN PLANNING DISCUSSED

Prague HOSPODARSKE NOVINY in Czech 14 Sep 84 p 4

[Article by Eng Premysl Kotik, Federal Ministry of Metallurgy and Heavy Machinery: "If We Do Not Blame the Decree, We Must Blame Ourselves"]

[Text] Material accounting and negotiation of supplier-consumer relationships in planning is set up by Decree No 48/1980 of the State Planning Commission and State Arbitration. This strictly lays out the rights and duties not only of the individual accounting points from the standpoint of creating the accounting, but also of the function of supplier-consumer relationships in the national economic plan itself.

The uniform method instructions for working up proposals in the operational plans provided by the State Planning Commission provide a useful inventory of raw materials, material and products for which supplier organizations and the middle management organs submit suggestions to the superior central organs for accounting and distribution plans. Consumer organs submit a proposal for plans for material and technical supplies in cases where it is determined to be justified from the consumption of accountable materials.

The inventory also includes the fund holders, which are usually the most important central consumer organs for which the decree establishes obligatory formal negotiation of supplier-consumer relationships and putting together plans for material and technical supplies. The fund holder for customers not specified is that organ which puts together the account.

Fund holding is very often not understood from the standpoint of creating the account, but rather mistakenly as a priority obligation in meeting deliveries. Consumers request expanded fund holding for these and similar reasons. In the Ministry of Metallurgy and Heavy Machinery, for example, this is the case for the consumer production economic unit, Bratislava Ore Basin and Magnetics Plant for items dealing with insulation materials (coordinating project manager Slovak Cellulose and Paper Works) and mining explosives (coordinating project manager Unichem), while the VILJ [projection economic unit] Iron Works there is also the matter of wood products in the form of industrial boards, scraps and chips (coordinating project managers CSR and SSR Ministries of Forests and Water Management).



In our ministry it is a matter of metallurgy products and machinery deliveries. The method of securing metallurgy products, both ferrous and nonferrous, is very complex. They are substantially accountable materials, but in the aggregate the Metallurgy Materials Account forms a so-called accounting pyramid.

At the state plan level, accounting and distribution are mostly done by broad items (such as rolled-steel material as a whole), for which the central supplier organ and the supplying VIL account in more detail. For this reason, coordinating project managers are tasked to break down the account further according to the assortment of items. According to all applicable regulations, one is not allowed to set up an account with a producer or to arrange for increased production without a study of needs or a proper negotiation of supplier-consumer relationships. Before the plan is prepared, it is absolutely necessary for the direct consumer to negotiate deliveries for the applicable period with the actual supplier. The results of the discussions are then a guideline for both the producer-supplier and the consumer. But in many cases the producers do not concentrate on the products requested, but instead concentrate on those which are economically more advantageous for them.

If the organizations do not reach an agreement, the only thing that can be done is to negotiate the disagreements. That is the approach which is clearly established and which has already been in use for some years. But it often occurs that the supplier does not follow the signed documents.

The appropriate memorandum from joint negotiations (if they take place at all and if it is not just a letter of record sent by mail) describes the position, for example, after a breakdown of the account's content (Brno Cement and Lime Works, Kablo Kladno), or a computer determines the supplier-consumer relationships and the consumer is therefore notified as to the status of deliveries by the superior organ (Chemia Pardubice), or that production capacity is exceeded and further discussions are pointless, or even that a response to the request will have to wait for receipt of the accounting from the superior organ (South Moravian Wood Products Plants). In some cases, nothing is confirmed and the documentation includes supplies of a make-up different than that which the consumer requested (First of May Rubber Works) or even states that negotiation of the supplier-consumer relationships is considered useless (Czechoslovak Automobile Plants, General Management).

This approach to negotiating supplier-consumer relationships cannot be tolerated in any case. It is a surprise not only that such records exist, but also that they are signed by the appropriate economic managers. The approaches by suppliers mentioned above force the consumers to more and more discussions, led to a growth in travel expenses, tempt the exploitation of friendships and can even lead to bribery. On the other hand, consumers do not request changes in the plans or accounts as a result of changes in production.

We cannot put together a production plan, or a marketing plan, or even a plan for material and technical supply from supplier-consumer relationships which have been negotiated, or rather not negotiated, in this way. The account created is thus just a kind of collection of "expert guesswork." But the



superior organs are allowing the enterprises to get away with putting accounts together this way. In follow-up specifications, there always appear discrepancies between needs and resources. A solution to the problems is requested from the superior organs despite the fact that the original wrong-doer and the victim are often one and the same.

This method of negotiating supplier-consumer relationships leads to a situation in which many times an unwanted or unneeded inventory of goods is produced, not only from the standpoint of the actual products, but also from the standpoint of quantity at the appropriate time.

Consumers are undergoing a disproportionate growth in supplies because of transitory production changes both in their own organizations and those of their suppliers. Consumers exaggerate their needs, in a noneconomic way they order the minimum quantities which can be ordered from the production enterprises, even when they would have to spend less in the long run. Supplier-consumer relationships are negotiated at times when the inventory of the production plan has not been determined and therefore the greater part of the requirements are justified on the basis of qualified estimates. After the assortment of products has been clarified, the consumer often must negotiate with the supplier to cancel or reduce the quantity ordered, which is not always a simple matter, if he wishes to avoid unneeded supplies.

Specific problems in supplier-consumer relationships occur in marketing organizations. In the metallurgy and heavy machinery ministry, these are Ferona and Sigma, central sales. Problems connected with supply operations of those organizations have already been the subject of discussions by the economic management of the production economic units and ministries. The technical and economic research institute of the metallurgy industry worked up a study on the whole problem. Tasks to improve supplies to consumers, to simplify market routes and to increase the readiness of deliveries are now embodied in Regulation No 18/1984 of the CSSR Ministry of Metallurgy and Heavy Machinery.

Supplier-consumer relations are still not getting the required level of attention at the individual management levels. In particular, ways are not being sought to settle disputes and the resolution of problems is being passed on to higher management levels. This approach often is justified by schedules too tight to allow the negotiation of supplier-consumer relations. But this ignores the fact that the negotiation of supplier-consumer relations is an ongoing process in which both sides have a duty to inform the other of changes in the make-up of supplies and requirements and not to wait until the negotiation of relationships in connection with putting together the proposals for the operational plans.

The only possible way to correct this is knowledge of and adherence to the applicable regulations, especially Decree No 48/1980 of the SBIRKA ZAKONU and the Economic Code. Someone might object that Decree No 48/1980 of the SBIRKA ZAKONU does not address the current situation in supplier-consumer relationships. But why? It is not because people mostly do not follow its provisions? Indeed, some individual provisions have, with some small changes, been in effect since at least 1975.

To correct this situation, it is absolutely necessary that all workers who are involved in negotiating supplier-consumer relations be thoroughly schooled in proper procedures. Another positive step is joining up the individual planning units and their own supplier-consumer relationships. The production plan and the plan for material and technical supply cannot be based on anything other than established tasks on the one hand and faultless negotiation of supplier-consumer relationships on the other. These provide the tasks for the production units and the technical units as well and the need to ensure the required raw material, material and subcontracted deliveries.

6285

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# MORE ATTENTION TO PRELIMINARY STATISTICS URGED

Prague HOSPODARSKE NOVINY in Czech No 38, 21 Sep 84 p 4

[Article by Dr Engr Vaclav Cap and Engr Jan Kurilla, science candidates and deputy chairmen of the Federal Statistical Office: "Estimates as Compared With the Actual Data"]

[Text] To keep the highest party and government organs up to date, the Federal Statistical Office provides early preliminary data by means of prompt reports. Their importance is indisputable. but only if the information, even though preliminary and subject to subsequent refinement, is meaningful. Prompt information is invaluable when it differs significantly (by several percentage points) from the final data or when it indicates a different direction of development (for example, overfulfillment of the plan instead of a shortfall).

From industry we obtain indicative reports on plan fulfillment, and on the development of the production volume, adjusted value added, and the number of workers. From the construction industry, on the volume of construction work in place, and on the number of workers and completed housing units. From agriculture, on the procurement of livestock products. From transportation, on the volumes of freight hauled by public mass transport, and certain other indicators of rail transport. From domestic trade, on the retail turnover of the main trade systems. And from foreign trade, on the export and import of commodities. Some information supplied by the banking system supplements this set of prompt data.

## Greater Differences Year by Year

In 1981-1983, we noticed that the differences between the preliminary and the final data gradually were becoming greater. The average monthly absolute difference between the preliminary and the final indices in industry for the indicator of gross output was 0.7 percentage point in 1981, but already 1.1 percentage points in 1983. At the same time, the differences were clearly greater in some months and for certain industrial ministries and enterprises. For July of last year, for example, the preliminary index of gross output differed from the final one by 5.2 percentage points, and in December by 2.9 percentage points.

In the elapsed months of this year, the differences between the preliminary and the final data became even more pronounced, especially within ministries of the federal government. In April, for example, within the Ministry of the Electrotechnical Industry this difference was 6.1 percentage points in fulfilling the plan of adjusted value added, 13.4 percentage points for the index of adjusted output, and 4.9 percentage points for the index of gross output. Within the Federal Ministry of Fuels and Power the high overfulfillment of the plan of adjusted value added (by 6.6 percentage points) that the preliminary results showed for April changed to a shortfall (of 2.5 percentage points) according to the final results.

In April of this year, such differences occurred also at individual economic production units and enterprises. The largest differences between the preliminary and final indices of gross output occurred as follows. Within the Federal Ministry of Metallurgy and Heavy Engineering: at the Skoda Concern of Brno, 14.2 percentage points; and at the Pardubice Flour Milling Machinery Works, 36 percentage points. Within the Federal Ministry of General Engineering: at the Dubnica Heavy Engineering Works, 23.1 percentage points; the Nove Mesto nad Metuji Stavostroji [Construction Machinery Plants], 34.3 percentage points; and the Zlate Moravce Calex, 16.1 percentage points. Within the Federal Ministry of the Electrotechnical Industry: at the Prague Automation and Computer Works, 9.9 percentage points. Within the Federal Ministry of Fuels and Power: at the Prague Bohemian Gas Enterprises, 27.6 percentage points. Within the CSR Ministry of Industry: at the Jihlava Modeta, 24.2 percentage points; and the Lysa nad Labem Kovona [Metal Furniture Factory], 30.6 percentage points. Within the SSR Ministry of Industry: at the Puchov Makyta, 6.5 percentage points; and the Kezmarok Tatralan, 7.7 percentage points. There were likewise significant differences between the preliminary and final indices of adjusted value added, especially at the Prague Heavy Current Electrical Engineering Works, the Prague Bohemian Gas Enterprises, the Prague Bohemian Power Plants, and the Bratislava Slovak Power Enterprises.

These excessive differences were the subjects of audits in early May of this year, at eight selected industrial enterprises and one economic production unit. The Federal Statistical Office held the audits, in cooperation with the republic statistical organs and the Czechoslovak State Bank. The audits showed that there were no problems in estimating the commodity output and number of workers.

#### Specific Conditions Determine the Method

The situation is somewhat different in the case of gross output. Here, particularly at engineering enterprises, most of the differences stem from inaccuracies in estimating the changes in work in progress. The enterprises gave inaccurate operational costing, the difficulties of estimating overhead, changes in the product mix and the resulting price changes, unclarified supplier-user relations, and the late setting of the prices of subdeliveries as the causes of the fairly significant differences between the preliminary and final data. The differences were due also to mistakes, both methodological and computational, in reporting the data. There were discrepancies even where none should have occurred in principle: in the plan's data for the given month, and in the actual data for the same month of the preceding year. Such information should be presented in the same manner in both the preliminary prompt reports and the final reports.



The main item within the indicator of gross output is the value of finished products, which is essentially the same as the indicator of commodity output and is computed practically every day. But the value of the work in process is determined from accounting data roughly 15 days after closing the month. To compute the indicator of gross output for the prompt report, therefore, the value of the work in progress must be estimated. There is no mandatory method of estimation in the state statistical guidelines because the conditions differ by enterprises, depending on the type of their production. In general it is possible to specify only that estimates of the value of the work in progress or its changes should be based on the development during identical periods of several preceding years, with corrections for the effects of known departures from the general development in the reported period (for example, the startup of new products, shortages in subdeliveries, shortcomings in production co-operation, etc.). For this purpose it would be expedient to maintain (as some of the enterprises are doing) a card file of the estimates, entering in it each month the estimates of the gross output and its components, and also the final data, with an explanation of the reasons why the preliminary data differ from the final ones.

The situation is more complicated also when it comes to estimating the volume of adjusted value added. The accounting department supplies around the middle of the following month the data needed to compute this indicator. For the prompt reports, however, the enterprises are required to supply preliminary estimates already the second workday after closing the month. With its Directive 2/1 Industry, therefore, the Federal Statistical Office has issued instructions on how the enterprises should estimate their adjusted value added if they do not have a more accurate method of their own. The recommended method starts out from the relationship between adjusted value added and commodity output (or output in the case of nonindustrial organizations) during the preceding three months.

Computation of the indicator of adjusted value added is influenced by the development of a number of other indicators (output, cost of materials not including depreciation, nonmaterial services, fines and penalties, etc.) that may depart from their development during the three preceding months. Therefore some departures from the final data are expected. In some cases, however, the differences are too wide. To narrow these differences, every enterprise should recalculate at least once a year the monthly differences between the prompt reports and the accounting data. If the differences for most months are considerable, the enterprise should check whether the employed method of estimation is suitable and try out some other, more accurate, method, in accordance with the specific production conditions. The introduction of thorough control at the enterprises is a prerequisite for improving the quality of the data in the prompt reports.

It is essential that the ministries devote more attention to the differences between the preliminary and the final results. Here they should concentrate on the economic production units, and perhaps the enterprises, where such differences occur systematically. The ministries should audit such economic production units and enterprises, evaluate the cited reasons, and introduce measures that will make the preliminary data more accurate.

GERMAN DEMOCRATIC REPUBLIC

FINNISH COOPERATION SOUGHT IN PAPER INDUSTRY, MINING SECTOR

PM020955 Helsinki HUFVUDSTADSBLADET in Swedish 14 Oct 84 pp 3, 26

[FINSKA NOTISBYRAN report on meeting with GDR Foreign Trade Ministry General Director Christian Meyer: "GDR Hoping for Industrial Cooperation"]

[Text] Berlin--The GDR is still hoping to be able to reach an agreement this year with Finland's Enso-Gutzeit for cooperation in the modernization of the East German paper and cellulose industry. This includes the construction of a sulfate cellulose plant in Wittenberg on the Elbe and the repair of another older plant. East German industry is also hoping to receive help from Finland in several other industrial projects.

This emerged when Finnish journalists met GDR Foreign Trade Ministry General Director Christian Meyer in Berlin. The GDR has recently modernized its metallurgical and chemical industries and is about to tackle the paper and cellulose industry. This is why Finnish companies have been offered parts of the projects in plants that are to be built.

The GDR is hoping, for example, to receive help from Enso-Gutzeit with the cooking and bleaching processes at the cellulose plants.

A rough estimate of the value of such a deal with Enso-Gutzeit is around 260 million markkaa, according to Meyer.

Other projects in which the GDR wants to cooperate with Finland include the extraction of copper and other metals such as cobalt, nickel, and silver from spent ore. Using new technical methods it is possible to extract these metals from waste better than in the past.

Outokumpu has mastered this technology and the GDR therefore wants the company to tackle its copper extraction. At present Outokumpu is looking into whether it is profitable to refine the substances extracted from the ore. It is the GDR view that it would be advantageous in principle to reuse the waste.

Other joint projects for Finland and the GDR are cooperation in the expansion of the port at Tallinn and various projects in third countries, such as those in Africa. As an example Meyer mentioned the construction of a cable factory in Algeria with Nokia as partner.



The GDR also wants to get detailed information from Finland on energy saving in the construction of dwellings now that the country has made the transition from oil-fired to gas-fired heating. Water purification techniques in connection with the cellulose industry is the sort of know-how that the GDR wants to receive from Finland, Meyer said.

Trade between the GDR and Finland is growing the whole time and last year Finland imported goods worth 426 million markkaa from the GDR and exported goods worth 374 million markkaa. A trade agreement between the two countries was reached in 1973.

The GDR takes the view that the volume of trade could probably be increased by 10 percent in the immediate future.

Finland exports complete factories to the GDR, as well as metals, machines, manufactured wood and chemical products. For example, Finland has exported factories for the production of concrete slabs and particle board, Meyer said.

In its turn Finland imports chemical products, machines and equipment from the GDR.

Meyer also said that because the GDR does not have the capacity to refine the crude oil bought from the Soviet Union, the refinement is in part carried out by Finland's Neste.

The Finnish firm refines the crude oil into petroleum or diesel oil, which is then either shipped back to the GDR or sold to Neste by the GDR, Meyer said.

There are actually very good prospects of increased trade between the two countries in the future because customs tariffs will be completely removed 1 January 1985.

CSO: 3650/58

GERMAN DEMOCRATIC REPUBLIC

GDR HOUSING COMBINES FACING REPAIR PROBLEMS

DW30023 [Editorial Report] East Berlin Television Service in German at 0945 GMT on 26 October carries in its "Prisma" program a 10-minute video report on the Halle-Neustadt housing area built 20 years ago. The video report shows defective roofing on the houses that lets "the rain leak into the apartments," and plaster coming off the facade of the housing blocks. Also clearly visible are holes and flaws in the decorative tiling on the facades of housing blocks.

During the report, representatives of the Halle Housing Construction Combine refer to the government's decision according to which the combines are responsible for the repairs, and declare that they must "recruit labor for the repair brigades" from among their own personnel. "This was not received with particular enthusiasm," a foreman says, because the combine had to obtain labor where it could--from among apprentices, "young men just back from the National People's Army," and elsewhere. As a result, the composition of the brigades does not guarantee continuous work processes, he says.

While the camera shows a brigade putting up scaffolding for facade repair, the reporter states that the Halle Housing Construction Combine has been designated as the "pilot enterprise" for finding the proper "technology" to guarantee continuous and efficient repair work on recently completed housing projects. A great deal still needs to be done, the reporter concludes.

The program moderator adds that during the first half of this year, "housing construction combines performed repair work on recently-built housing units worth more than M10 million. The target is to double this output in 1985. To this end the combines of Erfurt, Magdenburg, and Cottbus have a good starting position whereas those of Gera, Shuhl, and Potsdam do not."

CSO: 2300/114

BRIEFS

PRC CHEMICALS MINISTER--The PRC delegation under the leadership of Minister of Chemical Industry Qin Zhongda visited on Wednesday [24 October] the Buna Chemical Combine and acquainted itself with the capability and further development of this major producer of plastic and elastic materials. Central to the talks were opportunities for cooperation in the field of polyvinyl chloride [PVC]. The PVC which is being manufactured by means of an emulsion process can be processed in many ways and is particularly important for the synthetic leather industry. Earlier the Chinese guests had visited the Leuna Chemical Combine. During their stay they will study modern production procedures in other enterprises and combines of the chemical industry and installation construction, such as the Fotochemical Combine, the Schwarzheide Synthese Works, and the Pisteritz Agrochemical Combine. [Text] [East Berlin NEUES DEUTSCHLAND in German 25 Oct 84 p 2]

DELEGATION ENDS DENMARK VISIT--A delegation of the GDR League of Friendship Among Peoples under the leadership of People's Chamber Deputy Rudolf Hoeppner has concluded a several-day visit to Denmark. At the invitation of the Denmark-GDR Friendship Society the guests visited eight Danish cities. They conducted talks with Folketing deputies, numerous local politicians, trade unionists, teachers, and scientists. At a Friendship Society meeting in Copenhagen Folketing Deputy Dagmar Moerke-Jensen valued the GDR's gains in the economic and cultural fields and particularly praised the GDR's achievements in educating youth for peace and friendship among peoples. [Text] [East Berlin NEUES DEUTSCHLAND in German 25 Oct 84 p 2 AU]

AUSTRIAN FINANCE MINISTER'S VISIT--On Wednesday [24 October] State Secretary Dr Gerhard Beil, member of the GDR Council of Ministers, received for extensive talks Austrian Finance Minister Dr Franz Vranitzky, who is paying a 1-day visit to the GDR. Dr Gerhard Beil and Dr Franz Vranitzky noted in unison that the talks which are to be conducted soon between Erich Honecker, chairman of the GDR State Council, and Dr Fred Sinowatz, chancellor of the Republic of Austria, on the occasion of the latter's state visit to the GDR will release further incentives for the development and consolidation of economic relations. Participating in the talks were Dr Herta Koenig, GDR deputy finance minister and Dr Hellmuth Strasser, Austrian ambassador to the GDR. Subsequently Dr Franz Vranitzky met Dr Werner Polze, president of the GDR Foreign Trade Bank [Summary] [East Berlin NEUES DEUTSCHLAND in German 25 Oct 84 p 2 AU]

COOPERATION WITH SAO TOME AND PRINCIPE--Dr Manuel Pinto da Costa, president of the Democratic Republic of Sao Tome and Principe, received for friendly talks Dr Dieter Albrecht, deputy chairman of the GDR State Planning Commission. Dr Albrecht visited Sao Tome and Principe for economic talks. He had earlier signed a protocol on the further development of economic relations. He inspected a beverage plant which is being reconstructed with GDR aid. In the past few years the GDR had helped to erect a brick plant and a pottery factory. [Summary] [East Berlin NEUES DEUTSCHLAND in German 25 Oct 84 p 2 AU]

ECONOMIC TALKS IN LUANDA--On Wednesday [24 October] a protocol on the further development of economic relations between the GDR and the People's Republic of Angola was signed in Luanda by Dr Dieter Albrecht, deputy chairman of the GDR State Planning Commission, and by Lopo do Nascimento, minister of planning of the Angolan People's Republic. During the preceding talks both sides noted that economic relations were developing well and that a stable basis for the further development of equal and mutually advantageous relations has been created. [Summary] [East Berlin NEUES DEUTSCHLAND in German 25 Oct 84 p 2 AU]

CSO: 2300/113

## INTEREST IN ACCUMULATION OF WEALTH DISCUSSED

Budapest FIGYELO in Hungarian No 43, 25 Oct 84 p 7

[Article by Laszlo Antal, Institute of Financial Research of the Ministry of Finance: "Interest in Wealth Accumulation"]

[Text] Interest in wealth accumulation as a concept did not become widespread until the early 1980's, that is until about the time the "business" category began to gain acceptance and assert itself in practice. Not much later, this was followed by a revival of forced closures, i.e., of the category of "bankruptcies." The spreading of new concepts is not merely a fad; it reflects our intention to transform our system of economic management in such a way so that in the longer run it will lead to radical changes in the interest motives of our economic organizations.

Naturally, we still do not have a clear definition of what interest in wealth accumulation means that could be applied to our present conditions, since the only thing we know for certain is what we do not want, what we plan to change and what limitations and informal restrictions we want to eliminate. Understandably, the picture we have today of the interest relations that are expected to develop in the wake of the planned changes is still not sufficiently clear and is probably idealized. Hence interest in wealth accumulation interpreted as being the interest of entrepreneurs implies more of a confrontation:

--with fundamental employee interests concerning the increase of personal incomes, performance control and the utilization of manpower market possibilities (i.e., interests which are less closely connected with the given enterprise), and

--with traditional enterprise interests connected with the expansion of capacities, increasing the size of enterprises, developing their own profiles, obtaining permission to monopolize or to have exclusive rights and building strong personal relations--interests which even under our post-1968 conditions are quite natural.

In essence, interest in wealth accumulation pertains to the accumulation and preservation of capital, i.e., of value not capacity.



This not only means that additional resources must be used rationally and, therefore, that profits must be invested as efficiently as possible, but also implies the continuous changing of the structure of already committed enterprise resources (outside interests in other enterprises, liquid and semi-liquid reserves own resources used to finance resource stockpiles operating in other enterprises) in a manner which is the best suited to help preserve and accumulate a certain portion of our social capital. Also included in this is the selling of potentially depreciating capital goods and the constant maintenance of liquid reserves in order to avoid payment problems by any means (even at the cost of reducing "liquid" profits).

There are two factors which may change the value of capital: investments made from profits (not necessarily capital expansions realized at the income proprietor enterprise) and the revaluation of the existing capital stock. The importance of the latter is not any less than that of the former.

### Conditions

Interest in wealth accumulation is not the same as interest in profits as it is asserted today. This is a separate interest of a different kind which has to do with capital stocks that can only be tied to profits according to some indicator, and capital stocks are impossible or at least very difficult to convert. In this system the separation of regulations from capital stocks, hidden profile restrictions (supply responsibilities) and monopoly positions tend to disrupt the unity of the market and limit the alternative selection possibilities of the enterprises. Regulations have not been able to affect the intentions of enterprises --this has helped to ensure the maintenance of liquid financial assets and an increase in demand for investments, i.e., credits, to promote more expansive or more careful market behavior and to enhance foreign or domestic marketing. Hence the limiting function of regulations has assumed a vital role and we have had to use differentiated means of financial redistribution.

In the given regulation, therefore, profit is a narrowly defined market category which has only a limited effect on management and performance.

Interest in wealth accumulation, however, which for the time being is only an envisioned concept, assumes that

--an isolated institution (not necessarily the organization but the enterprise council, for example) will make all of the basic proprietary decisions. The basic interests of the institution or organization serving as the proprietor are tied not to the development of some enterprise but to how well the capital is utilized, and the development possibilities of a given enterprise or profile are all subordinate to this consideration;

--that there is an operational capital market which is based on a well-organized and diverse system of institutions with many components, able in ideal cases to measure changing capital values, or which at least provides a basis for assessing those changes (one such basis in our present lease system is the institution of bidding, and this is the function which every negotiable security with an established institutionalized market can fulfill that allows its current rate to differ from its face value).

--that assumes not only the breakdown of profit restrictions, but also the elimination of the use of separate funds and also a significant change in the relations between our state-level economic management organizations and our enterprises. Whether our enterprises excel or regress should be determined not independently of the state, but primarily by the effects of the market. This would help develop a strong interest in keeping capital in a liquid form, both in order to avoid bankruptcies and to preserve our capital structure's ability to change.

#### The Conditions of Effective Functioning

The conditions of interest in wealth accumulation, defined in perfect and idealistic terms, have not functioned effectively anywhere in the world. Even in the practice of the developed capitalist countries, for example, the stock market does not extend to the determinant segment of the economy, generally not exceeding 20 percent of the operating wealth, and in some developed industrial countries its role is negligible. It is probable, however, that the decisive question is really not this, but rather the establishment of proper interest motives. (Even in Hungary, for example, a small entrepreneur knows very well that the value of his business does not depend exclusively--and perhaps not even primarily--on the amount of capital invested, but also on its turnover, profits reputation and prospects. If he decides to sell it or look for partners he tries to capitalize on these factors, for this is--i.e., the prospects of long-term profits--what his customers base their calculations on.

The mechanisms of capital assessment, therefore, are only partially effective; they do not cover the major part of the economy. The motives of being associated with a given enterprise strongly affect even a market economy. The difference lies mainly in the fact--i.e., in terms of the present Hungarian conditions--that in most of the industrially developed countries the interest in maintaining capital liquidity, the dependence of the size of their investments on profitability, and the changeability and mobility of proprietary and organizational forms is more pronounced.

It is realistic to view interest in wealth accumulation as a long-term profit interest which only functions well if the restrictions imposed on the flow of resources and profits and the barriers hampering the alternative use of funds are not allowed to significantly

hinder the functioning of our equalizing mechanisms and the process of organizing capital movements into a market. Making this a reality requires that we establish the prescribed institutional and organizational forms and ensure the development of the prescribed behavioral norms and rules of conduct. (In addition, of course, it also has technical and accountancy-related conditions which, however, do not constitute any serious problems.)

### Dilemmas

The crucial question is how to reproduce capital proprietary motivation under socialist management, more precisely, in an environment where property (proprietary decisions) and management (managerial decisions) have so far been kept separate. In trying to answer this question the only thing economists agree on is that we must establish the necessary institutional and organizational conditions by putting an end to the direct dependence of our enterprises on our various apparatus of control.

According to one view, the separation of proprietary and operating functions is inseparable from modern management and especially from big organizations, hence we need to establish isolated organizations--banks or half financial institutions, half enterprises--which have a fundamental interest in the realization of capital (i.e., which are wealth oriented), and are not associated with any specific enterprise or profile. The essence of their recommendation is that as long as there is no capital flow and the interest in the liquidation of capital is not strong enough, we cannot dispense with wide-scale state-controlled redistribution. Hence the development of interest motives connected with ensuring the flow of capital is a key question in the continued development of our economic management.

The other characteristic point of view supports the expansion of forms which closely resemble self-government, starting from the assumption that it would include the great majority of our society among those who are affected by proprietary interests, responsibilities and decisions (the former proposal would make this the monopoly of a narrow minority). As a result, proprietary motivation would have an actual meaning (managing the wealth entrusted to the collective). This interest can be a natural outgrowth from our present system of management (see the experiences of the cooperatives). Therefore, there is no danger, as there is in the case of separate proprietary organizations, that the new--simulated--construction will eventually turn into a central organ of guidance.

The weakness of this proposal, however, is that at the time a decision is made to invest or receive capital, the tie between the resources and the given organization becomes extremely strong. The mutual interests of the collective equally hamper both. When using outside capital--not credits--some of the rights of self-government should be relinquished.

The interest motives of the employees of the collective--aimed at boosting personal incomes and at keeping the members of the collective working--are necessarily stronger than their "capital-proprietary" interests. Any change that interferes with these employee interests, such as a more significant transformation of our work processes, reorganization, the building-down of a non-economical factory unit--would presumably run into considerable resistance. (It would, of course, run into resistance under any form of enterprise management, but here perhaps the independent interest in initiating the change would not even materialize.)

Proponents of a third proposal are attempting to solve the weaknesses of the collective-property based concept by transforming the collective proprietary position into a personal (usufructuary) capital interest. According to this concept, the solution would be to issue some kind of "workers' stocks" to guarantee the proprietary motivation of the collective, which would mean that the wealth of the enterprise would be made up partly of state wealth, and partly of stocks purchased by its employees.

The ratio according to which wealth would be shared among the stocks, the enterprises and the state would, at the same time, also represent the extent to which they can exercise their right of say (vote) in enterprise decisions. The yield of the stocks (securities), the "share" of the workers would fluctuate as a function of the profitability of the enterprise, and the workers would have an opportunity to discount and even sell their securities (whether prompted by personal financial problems, i.e., by employee interest motives, or by the worsening profit prospects of the enterprise).

This system of interests based on a division of wealth and on the resulting division of profits, and also on a division of participatory rights in decision making can become the basis of specific models of sharing and systems of rules which imitate, in more or less detail, the operating logic of stock companies and try to combine the characteristics of the models based on the decision-making rights of the isolated proprietary organization and the collective.

If the portion of personal income paid out in the form of securities and shares does not amount to a considerable proportion of the employees' total income, then the issuing of stocks and dividend incomes will probably turn into a "number war" without stakes. If, however, a significant part of incomes is converted into an active dividend income then the drastic, and as far as the collective is concerned, often unpredictable fluctuation which is even less closely connected with work performances probably would not increase proprietary awareness; instead, it would have an unfavorable effect, and would weaken the incentives connected with better or worse work performances, since this fluctuation would be a kind



of gamble for the members of the collective. (Naturally, the time for workers to unload their stocks en masse is when the situation of their enterprise begins to deteriorate; this would mean the withdrawal of earlier granted credits which would get it into even deeper trouble.)

A system built on the stock interests of the collective's members would by necessity have to face all of the disadvantages of simulated regulations, because by applying these regulations it would force the participants to undertake roles that are alien to them.

As far as I am concerned, I consider this idea one of the possible forms which an enterprise's internal incentive system can take. If the enterprise council decides to present the employees with a choice between taking less cash or stocks with a greater face value which draw variable interests as determined by the size of the enterprise's profits and which, therefore, can be discounted at changing value then this is perfectly alright. As a universal system prescribed centrally, however, this would become an unnecessary game, justly causing the collectives to develop a dislike for it.

According to another concept aimed at generating an interest in wealth accumulation, enterprises should be broken down into groups of businesses (where everyone is a potential entrepreneur, but where this entrepreneurial position can be lost at any time--and not just in the case of a lasting lack of solvency) while preserving the individual characteristics of each business. The attempt to make the distribution based on a system of bidding universal appears to be aimed at minimizing bureaucratic decision making. In my opinion, this idea again can only be partially implemented, as an internal undertaking.

We have also heard several other ideas, such as the one proposing to transform our existing giant organizations into partial capital-redistributing organizations, and to break down certain enterprises into subsidiaries. These, however, should be viewed more as intra-enterprise systems of interest that are similar to the development of semi-independent units within a given enterprise. There is (or there will be) no reason why they should not be implemented, once there is a consensus among those affected within the enterprise management that this is what they want.

#### The Possibilities of the Near Future

What, in the final analysis, are the prospects for developing an interest in wealth accumulation? It is clear that in the near future we cannot realize the ideal form of interest accumulation which we had presented at the beginning. It is also obvious that while capital appreciation does not require an all-inclusive (simulated) regulation, in the longer run it can only be achieved with the help of an established capital market.



Examining these various concepts thoroughly, especially if we imagine the existence of the specific rules which would make the realization of any of them possible, it would appear in practice that the more we try to force any of these solutions on the economy (or perhaps on our society) as a universal--and, therefore, only--solution, the more artificial the interest systems which we are aiming to establish will become.

What is important, therefore, is to get our established enterprise management forms to start moving by themselves, to develop more diverse property relations and interest forms among and within our enterprises, and ensure the earliest possible establishment of a differentiated system of financial institutions which is able to promote this movement. The area where we need to make immediate progress is in strengthening the interest in maintaining liquid monetary resources. This, of course, also has certain general requirements. First of all, regulations must be enduring and more predictable for our enterprises, and the regulation of the amount of money must play a greater role in the macro-level decisions of economic management.

The third general condition would be to attach more serious consequences to the deterioration (loss) of enterprise liquidity. In addition, there are several partial solutions that can help strengthen the interest in preserving liquidity. Today these solutions include bonds, that is to say they would include them if our bank(s) maintained a contingency credit line that, let us say, would enable our enterprises to borrow maybe three times the amount of its own reserves at any time, irrespective of other credit decisions. Another proposal that would help would be to have profit sharing or bidding. The changes that are on the agenda today will probably mean a step in the direction of enabling our enterprises to manage the social capital entrusted to them, and of making this an important point of consideration. It would not be realistic, however, for me to characterize the interest of the near future already as an interest in wealth accumulation.

9379

CSO: 2500/74

MINISTER ON MARITIME POLICY, ECONOMY

PM081425 Lublin SZTANDAR LUDU in Polish 19 Oct 84 p 4

[Interview with Minister Dr Jerzy Korzonek, head of the Office of Maritime Economy, by SZTANDAR LUDU correspondent Zbigniew Miazga; date, place not given]

[Excerpts] [Miazga] At a relatively recent session, the SEJM of the Polish People's Republic approved the main guidelines of our state's maritime policy, presented to it by you on behalf of the government. Subsequent commentaries spoke of the virtually historic significance of that event. Why such an exalted note?

[Korzonek] It is no exaggeration to call it "historical." Why is it so? Until now--I am thinking here not only about the last 40 years but also about the interwar period--the "maritime" decisions of the Sejm and the government have been dealing with individual, separate matters, some of which were merely concerns of the moment. For example: the construction of the ports of Gdynia, Swinoujscie, and Polnocny, or the question of the development of our fleet. On the other hand, in the document you are asking about conclusions having been drawn from the fact that Poland lies on the Baltic. And on the basis of these conclusions a proposal was made for the government's policy guidelines in several areas, including the economy, international relations, recreation and sport as well as medical care, and, finally, that which we call society's maritime orientation.

[Miazga] Let us stay with the economic concerns. Is the Sejm resolution a promise of some better times, awaited by shipowners, shipyard and dockyard employees, and fishermen?

[Korzonek] The mere fact of the passing of the resolution does not in itself bring any consequences. No extra money will be coming as a result of that document either. The size of any possible additional means allotted for maritime activity will depend on the condition of the state's purse. And--since maritime economy can and should finance its own development and in addition contribute to the state budget--the development of individual [maritime] industries, the elimination of disparities, and the living standard of people involved with the sea will all depend primarily on the effectiveness of the latter's work.

[Miazga] But is that certain? Not so long ago Ryszard Karger, director of the Szczecin-based Polish Steamship Company [PZM], was persuading journalists that shipowners could be the proverbial goose that lays golden eggs. But unrealistic regulations and the outrageously high taxation make it impossible to develop the fleet and expand the infrastructure....

[Korzonek] Let me ask you a question: For whom does the goose lay the golden eggs?

[Miazga] It is best when it lays them for its owner.

[Korzonek] Exactly. Failure to pay taxes can be compared to a situation where the goose lays the eggs for herself. At the same time, advantage is taken of such benefits provided by the state as the health service, education, and so on. Taxation is a normal thing throughout the world, and I would say that the taxes paid by the PZM last year were minimal, thanks to the reductions they were able to obtain.

But these are mere details, whereas the important question for us today is: Should our fleet be expanded and if so, along what lines and under what ministry?

[Miazga] And what is the answer?

[Korzonek] It is, unhappily, not simple.

The essential function of the fleet is to safeguard the state's balance of payments. This means the possibility of having our own Polish ships to carry cargo for our foreign trade without having to pay freight expenses in hard currencies. And if and when we do use foreign carriers, we still have a good argument if the latter were to attempt to dictate their terms from the position of monopoly. But in recent years there has been a reduction in the volume of cargoes carried for our foreign trade. Another matter is that of exporting our services. The shipping trade throughout the world is going through yet another year of slump, so we are not alone in this. Ships lie moored everywhere. So, if we earn \$1 at the expense of Z80 then, taking the official rate of more than Z120, our operation is effective. But if it is to cost us Z200, then we should think twice about the advisability of such an operation. And, unfortunately, there is no shortage of occasions for such a reflection. And one last thing. The limits of the expansion of our fleet are also defined by the national economy's investment capacities. And we know very well what these are today.

Our first reflex reaction, therefore, might be to scrap our fleet or, at least, not to expand it. Especially as other industries in our country have a higher profitability factor--some 50 to 70 percent--compared with the 16 percent achieved by our fleet. But we know that the recession in world shipping trade will end, which will mean higher freight charges and, consequently, higher profitability for our fleet, even without any new investment. Favorable economic circumstances are bound to open up for our foreign trade too. And we need to prepare for that as best we can.

[Miazga] What does that depend on?

[Korzonek] The essential thing is to improve the effectiveness of economic management. Let me give you just one example. Higher efficiency of servicing in port can offset the cost of several bulk carriers, approximately 21.6 billion each at today's prices, or several general cargo carriers, approximately 23 billion apiece. But it does not all depend on the goodwill, or lack of it, of port workers. An important role is played by port infrastructures, by the performance of the railroad service, by on-shore facilities. And here we have a great many instances of negligence and a great many disparities.

[Miazga] The fleet at the disposal of Polish Merchant Marine is now--as is best demonstrated by the case of Polish Ocean Lines--well past its prime, and therefore expensive to run, and less competitive in world markets. And yet ships built in our shipyards are being sold abroad. Moreover, it is alleged that they are not always sold on profitable terms. I said "it is alleged," since I have not been able to obtain reliable information on this area of our exports. Perhaps you, Minister...

[Korzonek] That is the province of the foreign trade minister. In my view exports of ships are both necessary and expedient. We cannot assign the entire output of our shipping industry for the use of Polish shipowners--if only for the reason that they would be unable to accommodate 0.5 million tons of cargo carrying capacity per annum. They receive between 25 and 30 percent of our production, and that should ensure that the process of modernization and development of our fleet continues at a regular rate.

[Miazga] Why, then, have we bought ships from British, Spanish, and Argentine shipyards?

[Korzonek] The ships built for us in Argentina and Britain were bulk carriers, that is, vessels of relatively simple construction. At the same time our industry became involved in the production of more labor-intensive and technically sophisticated vessels, such as liquid gas carriers and chemical cargo carriers, for which it could secure advantageous prices. As regards the imports of ships, on the other hand, the terms of purchase were favorable for us. Hence those operations, and we do not intend to exclude the possibility of repeating them in the future.

[Miazga] What is our present status in world maritime economy?

[Korzonek] It is hard to give a precise answer here. Perhaps I can give you a few figures. Our highest rating is in shipbuilding. With our 0.5 million tonnes we are in the top 10. The world's total fleet tonnage is 700 million tonnes, and Poland's 4 million tonnes place us in the 20th position. But these figures are misleading if we reflect on the fact that, for many reasons, it is Liberia and Panama which have the largest fleets. Last year more than 2 billion tonnes of cargo was transported by ships, and out of that Polish ships carried approximately 33 million tonnes. The world's total fish catch comes to nearly 75 million tonnes, out of which 11 million tonnes find their way into Japanese nets, 9.5 million tonnes into Soviet nets, and some 700,000 tonnes into Polish nets.

[Miazga] While we are on the subject of fish, question number one is whether there will be more fish finding its way onto our tables, and number two, does the price of fish have to keep going up so much? Even those varieties which until recently were within the average earner's means are now approaching the category of luxury foods.

[Korzonek] No, there will not be more fish. This is because we have no access to any new fishing grounds, because our scope for action in the fishing grounds in which we operate now is becoming more and more limited and, finally, because the aging of our fleet results in its decreasing catching capacity. Last year the domestic market received 232,500 tonnes of fish and fish products. We are doing all we can to keep this year's offer at the same level.

You complain about the rising prices of fish. These rises are an unfortunate necessity. Our fishing industry covers its hard-currency expenditure (the cost of fuel, repairs, and stay in port) itself by exporting 90,000 tonnes of fish. But there is still a great number of other expenses connected with modernization of our fleet, reconstruction of shore facilities, production, and so on. Even with the rise in the prices of fish and fish products the state still had to provide the fishing sector with a 22 billion subsidy.

[Miazga] I hope that once this interview appears in print, it will redeem some of our sins. Minister, our Atlantic liner "Stefan Batory" will soon be setting out on its last voyage. What about a successor?

[Korzonek] That is a question of some very large sums of money. A vessel of that type costs \$150 million in Western shipyards, and some 215 billion in Polish shipyards. In a situation where Polish Ocean Lines need 250 billion to modernize their merchant marine fleet it would be irresponsible to spend a sum of that order on a passenger vessel. Consequently, we are continuing to search for other sources of financing a vessel that could be built in Szczecin's Warski shipyard. We are also considering the possibility of purchasing a secondhand vessel. But we cannot say or decide anything about that in concrete terms at the present stage.

CSO: 2600/185



## INITIAL ECONOMIC PROJECTIONS TO 1990 OUTLINED

Belgrade PRIVREDNI PREGLED in Serbo-Croatian 16 Oct 84 p 3

[Article by Andja Petrovic: "Bolder but More Rational Steps Forward; Before the Delegate Discussion on the State of Foreign Relations and Projections To 1990"]

[Text] The Yugoslav Assembly is making preparations for discussion and decision-making concerning the bases for political normalization of external liquidity in the period 1985-1990 using material prepared by the Federal Executive Council and the Federal Bureau for Social Planning. The analysis indicates the causes of the present situation, states what the situation is in a year in which policy is being outlined, and gives projections of trends which must be followed in order to restore a 25 percent level of foreign indebtedness by the end of the decade.

A basic part of normalizing external liquidity is providing for a more moderate rate of growth in domestic demand arising from increased social product, and at the same time increasing imports by approximately the same rate as increases in production, and increasing exports at a greater rate on average than increases in production. This should contribute to equalizing supply and demand in the goods market as well as be an important factor in achieving anti-inflationary goals.

The above sentence is from a document which will soon be the object of great attention in the bodies of the Yugoslav Assembly. It contains all the major elements of economic policy in the foreign relations section; it anticipates the period 1985-1990, a time in which the country must free itself of its debt burden, achieve normal liquidity, and insure a more stable rate of growth for the following period without falling into the kinds of deep problems in which it now finds itself. Elements of this policy are already familiar to delegates of assembly bodies, and this fall the proposers of the policy--the Federal Executive Council and its bodies--will be called upon to explain and justify them.

### Three Basic Formulas

Proceeding from the conclusion that the external liquidity of the country is the ability to make payments that are due and the ability to take on foreign

indebtedness, analysts have set three basic equations to which all essential factors of this phenomenon are connected. The first equation states that the sum of total domestic demand, increased (or decreased) by the sum of the surplus (or deficit) of the account balance of exports and imports of goods and services, must be equal to the sum of social product. Thus, social product and domestic demand are connected with current transactions of the balance of payments which also includes foreign exchange influx from money orders of our workers abroad, but also outflow for interest payments--this is the second basic formula which is being established by the proposers of fundamental policy for normalizing external liquidity in the period 1985-1990. The third formula states that the account balance of financial transactions in the balance of payments should equal the account balance of current transactions. This will determine limits in changes in foreign exchange reserves, changes in the state of foreign indebtedness, and changes in the state of our credits to foreign countries.

In order to make the right assumption for solving these formulas, preliminary goals have been set whose attainment can be provided for. They are: increased foreign exchange income and foreign exchange reserves, reduced foreign indebtedness to the level of credit capacity, improved structure in credit terms, greater production in accordance with the Anti-Inflation Program.

#### Analysis and Projections

Implementing the outlined strategy remains under the unvarying influence of outside factors which are inevitably part of the mosaic of the state in which, and in accordance to which, economic policy must operate. These factors include the payment of foreign credits which are due, the money orders of workers which will gradually decline, the price movement in foreign countries which is estimated at 4 percent a year to 1990, and the movement of interest rates on international financial markets and the amounts of our credits and their interest rates.

Data which are being cited in the analysis, and which are being used for creating projections of debt settlement and for providing liquidity for payments and new indebtedness to foreign countries, indicate that the upper limit of indebtedness--when all elements of this complex whole come face to face--was exceeded in 1983. At that time, the amount of current foreign exchange payments of the country was \$10.628 billion and foreign currency reserves at the end of the year were \$1.567 billion, which was only 14.7 percent of the former amount. In 1984, current foreign exchange payments already amount to \$10.9 billion, but foreign exchange reserves will be \$2.167 billion, or 20 percent of total payments. This positive trend will be continued in 1985. True, current payments will come to \$11.82 billion, but foreign exchange reserves at the end of the year will increase by \$300 million and amount to 20.9 percent of obligations. The ratio between these two values will mostly remain the same during 1986 with \$13.41 billion in obligations and \$3.067 billion in foreign exchange reserves, which will amount to 20.7 percent of the former.

Only in 1988 can we expect favorable movement in this ratio. Although current foreign exchange payments will amount to \$16.05 billion, the amount of foreign exchange reserves should grow to \$3.537 billion and be 22 percent of obligations.

The year 1989 will maintain a similar ratio--current obligations will amount to \$17.25 billion and foreign exchange reserves will be \$3.767, or 21.8 percent of obligations--as will the year 1990 with amounts of \$18.26 billion of payment obligations and \$4.007 billion in foreign exchange reserves, which will then be 21.9 percent of obligations.

#### Planners Do Not Shy Away From New Debts

All these values are assumptions which depend on attaining certain dynamics of export, import, domestic demand, and growth in production. Preliminary data indicate that the planners are taking into account constant growth in foreign exchange reserves up to the level of capability that they can make payments on mature obligations, and that these obligations will be reduced every year by several hundred million dollars. Considered separately, this appears modest, but not if compared with anticipated growth of exports--but also of imports--and with a more moderate growth in domestic demand than growth in social product. According to projections, the debt situation will not be increased nominally, but one should not expect that the debt will be reduced every year by the amount of the part which has been paid out.

The projections take into consideration obligations acquired with regard to long-term, middle-term, and short-term credits, and they state that payments will grow for a while from \$3.4 billion this year to \$3.65 billion next year, and to \$3.7 billion in 1986. The rate will decline only by 1987, falling to \$3.5 billion, then will decline to \$3 billion each year the next 2 years. This decline is characterized by the total amount of short-term credits falling a little each year so that by 1988 we will have no more of them. Therefore, during the period 1984-1990 the Yugoslav economy will have to pay out \$23.05 billion in debt in order to have \$16 billion in obligations to foreign countries at the end of the final year of the period, but it must also take in \$19.26 billion in current foreign exchange income.

Together with settling debts and taking on new ones, the other side of the coin is also taken into consideration--that is, providing credits for our business partners. It is now well known that this is necessary in order to place products having great value on the international markets. Credits issued by our country amounted to \$1.7 billion in 1983, and will come to \$1.9 billion this year and \$2.15 billion the following year. A continuation of this trend is projected for 1986 as well, with approximately \$2.45 billion in credits, and for 1987 with a level of about \$2.8 billion credits issued. Credits will amount to \$3.2 billion in 1988, and in 1989 as well they will exceed total indebtedness of \$3 billion. This level will remain the same the following year, while the sum of credits issued grows to \$3.65 billion. The positive difference will be even greater in 1990 as issued credits will amount to \$4.15 billion.

#### Qualitative Factors in Debt Settlement in Place of Belt Tightening

Up to now we have only explained the results of something which should take place during the coming years in order to reduce excessive indebtedness, the coefficient of which is now still over 40 percent--everything over 25 percent is considered to be unfavorable and difficult to endure.

It is precisely the reduction in the growth of social product--last year the index was negative--that analysts justifiably consider to be the cause of the country's present situation. Growth of 2 percent is anticipated for 1984, and positive results can be expected if imports and exports behave in the appropriate manner, that is, if imports grow by 1.2 percent, and exports by 10.8 percent. By 1985, we must achieve growth in social product of 4 percent, imports must grow by 4.6 percent, and exports by 10.3 percent in order to satisfy the estimated proportions needed to be able to meet obligations. Stable growth in social product is anticipated for the following 2 years, but imports will grow by 12.3 percent and exports by 12.2 percent in 1986. At first glance this might be worrisome, but the planners say that these levels will be enough to achieve goals without risking the exhaustion of the reproductive capacity of the economy, a point to which we recently came as a result of restricting import of raw materials, other materials, and equipment. By 1989, a more tranquil growth in foreign trade is anticipated with a rate of 8.8 percent for imports, as well as a lower rate of 6.9 percent for exports. We are reminded that the debt situation for this year, however, will be \$700 million below that of the previous year.

Real growth is expected to take place in 1988 when social product should be 5 percent greater, together with the same sort of growth of exports and a somewhat lower rate of growth of imports of 4.8 percent. Thus, a relatively high basis will have already been created to which high rates of growth cannot be added, but the growth rate of social product can be, and a new 5 percent is being taken into account in social product, a rate of 3.4 percent in imports, and 3.1 percent in exports. If all these values are attained, the average annual growth of social product in the period 1984-1990 will amount to 4.2 percent, import of goods and services 5.6 percent, and exports 7.2 percent. A positive account balance is evident, although getting to it takes us by rather circuitous paths. It probably has to be that way.

#### Without Excessive Opening or Closing

Planners recall that there is agreement on a considerable number of unused possibilities for increasing social product, through greater productivity of labor--now almost proverbially low--subsequently through greater replacement of imported semifinished material by domestic sources, by greater influx of foreign exchange from tourism and transportation services, and by directing investment to benefit exported products. In this regard, restrictions on domestic demand must be reduced. Domestic demand is already at a sufficiently low level and if it does not gradually move higher the implementation of the goals of normalizing foreign liquidity through greater production, especially for export, might be threatened.

The fundamentals of policy for normalizing external liquidity in the period 1984-1990 include adaptation to changed relationships on the international markets, both the goods markets and the financial markets. It has been pointed out that delays in this regard have, to a great extent, led to the present unfavorable situation, and it has been emphasized that projections for normalization must be placed within the broader limits of interdependent economic trends and relationships, both with foreign countries and in our own country,



without going too far with excessive closing or opening of what has existed up to now.

Thus, the delegates of the assembly bodies, as well as the general public, have very critical and voluminous material before them for discussion. They must demonstrate some understanding of it, but they must also show the goodwill to accept reality as it is, as well as to renounce individual interests which, in addition, can only bring individual benefit on a temporary basis.

#### Money Orders on the Decline

For years, the country's balance of payments has been very dependent upon the foreign exchange money orders of workers temporarily employed abroad. Projections for normalizing external liquidity definitely take this significant factor into consideration for the remaining years of the decade, but they are calling for an inevitable decline. This year, money orders will total approximately \$1.63 billion, but by next year will begin to decline, dropping to \$1.6 billion, then to \$1.41 billion by the following year, and to \$1.26 billion by 1987. The year after this, they will fall below a billion dollars--to \$980 million--and subsequently will fall even faster to \$600 million in 1989, and to \$400 million in 1990. Then they will have already become a secondary factor in the balance of payments, and will have to be replaced by other sources of funds. Experts anticipate that this source will be found in increased exports.

#### Lessons Not Soon Forgotten

Even today, analysts and planners take into consideration the very important factor of interest rates on credits taken in and given out. Of course, the former is much more important to us, because recently our economy has taken on an excessive burden, and this has left an unforgettable lesson for the future. Taking a few years as examples, in 1983 interest paid out amounted to \$1.662 billion and interest taken in came to \$173 million. This year the figures were \$1.9 billion and \$250 million respectively.

The differences between the two values will begin to decrease only in 1987, when \$1.87 will be paid out to creditors and \$370 million will be collected by debtors. In 1990, we will pay out \$1.76 billion and collect \$500 million in interest payments.

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**BELGRADE BANK OFFICIAL URGES MORE CENTRALIZED SYSTEM**

Belgrade PRIVREDNI PREGLED in Serbo-Croatian 13-15 Oct 84 p 4

[Interview of Dr Miodrag Zecevic, vice president of the Commercial Department, Belgrade Associated Bank, with Rodoljub Zivkovic]

[Text] The monetary-credit and bank credit system requires improvement, along with reorganization of the banks in the spirit of the Long-Term Economic Stabilization Program. Although the Law on Establishing Joint Banks was approved in 1978, so far not a single one has been formed in Yugoslavia. The present foreign exchange system does not suit the economy, and creates many operational problems.

[Question] Is Yugoslav commercial banking truly organized in a way that meets contemporary economic needs? How specialized is it and does the number of banks also bring certain obstacles for economic organizations in their operation? These questions were posed at the beginning of our interview with Dr Miodrag Zecevic, vice president of the Commercial Department, Belgrade Associated Bank.

[Answer] Yugoslav banking today is not organized in a way that would permit it successfully to contribute to the implementation of the Long-Term Economic Stabilization Program. To be precise, the banks are organized on a territorial basis and are general in nature. That means that there is no bank specialization and operations are on a very small scale. Thus instead of building bridges for cooperation between associated labor organizations in commercial ties, pooling of resources and labor, and integration, they often represent the limits of the operation of a unified financial marketplace in Yugoslavia. Therefore, improvements are needed in the monetary-credit and banking system, as well as bank reorganization following the line of the Economic Stabilization Program for the sector. The Yugoslav Bank Association has discussed that topic several times, and has adopted basic positions and directions for activity for improving the Yugoslav credit and banking system. Among other things, concrete suggestions have been made for strengthening the banks, especially those of the basic general type.

**Founders Do Not Follow the Territorial Principle**

[Question] Is there a need for the existence of a banking mechanism this large?

[Answer] If you are thinking of bank organization in terms of internal, basic and associated banks, that type of mechanism, in my opinion, does not disturb anything. The problem is in the way the banks are organized. For example, the law on the credit and banking system did not foresee anywhere that organizations would be, let's say in Belgrade, the founders of the Belgrade Bank, or some other bank in their own territory. The law anticipated that the founders could be basic labor organizations from any part of the country. At the time the basic banks were established, however, the territorial principle was accepted.

I believe that the territorial establishment of basic banks was done with a purpose, because in that way a great deal of influence is assured for the sociopolitical community in bank operations: although that influence is unofficial and informal, it is still very strong. It leads to certain deformations, especially concerning the financing of development projects. Where investments are concerned, as you well know, we have had many failures. They have occurred precisely because of the fact that the banks did not consider the economic justification for investment undertakings, and therefore, they were pressured to join in those undertakings. Frequently preparation of investment projects was of short duration, so that the investment period itself took a long time, with large overruns relative to the projected capital expenditures and completion dates. Eventually, all these failures taken together had an impact on operations, bringing losses that even today burden the Yugoslav economy.

[Question] You mentioned strengthening. What results were achieved by the task force of the Belgrade Associated Bank which prepared the report on the economic justification for association?

[Answer] We formed a task force, and a report was written on economic justification, which pointed out all the advantages of that type of integration. In the first place, they are manifested in operational ties and economic integration, in broader pooling of labor and resources. The report also covered the effects expected subsequent to that, or the potential of such a large bank, for it was a matter of integrating two of our larger, more competent banks that already have worldwide respect. If these two major banking systems are integrated, it will be a significant step and will improve the overall position of Yugoslav banking in world banking and financial markets.

The founders of our banks have been kept informed about everything. Now it is a matter of opening discussion in the associated labor organizations that established these two banks and in the basic banks. There the report must be evaluated, to see that the most important integrating directions have been traced, and overall to consider all aspects of the proposed integration of these two major banking systems.

[Question] The notion of emergence from the Yugoslav economic crisis receives great attention throughout the world. Are there initiatives for establishing foreign representational offices of large individual banks, as well as of associated banks? Tell us, comrade Zecevic, what has been done in that regard?

[Answer] There are already offices of four foreign banks in Yugoslavia. I think that process has stopped, but it would be good for a larger number of foreign banks to open offices in our country. Those banks would conduct the usual transactions, as do our representatives in many countries; chiefly, they would seek business partners and banks, and observe market trends. That would be an especially useful activity for observing the broader possibilities for purchasing Yugoslav goods through their founders abroad.

#### The Present Law Is Still An Obstacle

[Question] Concerning the establishment of associated banks in Yugoslavia, we know that that law was passed in 1978, but so far not a single associated bank has been founded in Yugoslavia. Many talks have been held with important banks throughout the world, including banks in developing countries, especially those with crude oil, and with American and European banks. Yet so far nothing more definite has been accomplished. Probably the reason for that can be found in our regulations on establishing associated banks, which are not so supportive that foreign banks would be willing to invest capital and organize joint operations with Yugoslav banks.

Together with the Yugoslav Bank for International Economic Cooperation, the Belgrade Associated Bank has offered a proposal for changing this legal regulation. That proposal, with the support of the Yugoslav Bank Association, has been forwarded to the Federal Secretariat for Finance, and it is anticipated that changes in the law will soon be considered by the Federal Executive Council, and then submitted as a proposal to the Yugoslav Assembly for approval.

Otherwise, I believe that the founding of joint banks is very significant. It would also mean greater possibilities for joint capital investments in Yugoslavia, for the purpose of financing joint projects at home and abroad. From a longer perspective, that would contribute to lesser involvement of foreign capital in the form of credits, and to more joint investments. When they extend credits, foreign partners exact high interest while taking no risks and having no concerns for the effects of the credits. The situation with joint investments, however, is totally different.

[Question] Your area of competency includes cooperation with foreign banking institutions. Last week you conducted discussions with Libyan banking representatives. Can you tell us anything more about those discussions?

[Answer] Yes, we are carrying on discussions with representatives of several Arab banks, including the Libyans, about establishing joint banks in Yugoslavia. These discussions were at a very concrete level in the last year and a half. It is, however, still too early to say anything more definite about that, because some matters still must be resolved. Changes in regulations are required, and the discussions also revived several open questions concerning the operations and functioning of future joint banks.

[Question] Members of your bank have also encountered certain difficulties in their operations. Certain problems emerge from flaws in the foreign exchange system. What does the Belgrade Associated Bank think of the functioning of the foreign exchange system, how well does it fit into the present functioning of associated labor?

## Monetary Dualism

[Answer] The present foreign exchange system is lagging in many ways compared to the basic principles that were formulated in the Long-Term Economic Stabilization Program. First, it was anticipated that a unified, realistic exchange rate would be established for the dinar in Yugoslavia. The policy for a realistic dinar exchange rate has been pursued successfully in the last 2 years, but it is still not unified. Second, it was stipulated that the dinar would be the only legal means of payment. In practice, however, that is not the case. Today we have monetary dualism (with both the dinar and foreign currency functioning as the means of payment in Yugoslavia), which is not in accordance with the laws. The consequences of that are that we still have basic labor organizations with special foreign exchange participation, when it is a matter of buying or selling production materials and selling goods for dinars of foreign-exchange origin (which means for foreign exchange currency in Yugoslavia), which also is not in accordance with the principle that the dinar should be the only means of payment in the country.

We export raw materials and production materials that we need very badly ourselves, while at the same time we buy those same materials at very high prices through import. Thus we lose on our exports by the high prices we pay to import. Besides that, irrational operations are promoted by the foreign exchange system. The basic organizations of associated labor establish conditions whereby they obtain foreign exchange, then buy raw materials and other materials, because they do not know what the situation will be tomorrow. That ties up already scarce resources. At the same time, our associated labor organizations make use of bank credits, where they pay interest as high as 50-60 percent. All of that has its impact on the overall rationality of operations and on productivity. The final producers who have the foreign exchange in their hands try to retain it at any cost, for they can earn large profits on the favorable exchange rate. For these reasons there is no point in even mentioning proper functioning of the foreign exchange market.

For 2 years we have had unified criteria for economic relations with foreign countries which were coordinated by the self-management interest communities. The Economic Chamber also did a great deal of work in this area, but still the system is not alive. Therefore, the fact is that this type of mechanism and foreign currency system do not give the desired effects, and this is clear proof that the system is not good and that it should be changed. Currently, final producers who bring in foreign exchange pay no attention to the problems of associated labor organizations to whom they deliver production materials and subassemblies, while they strive to have those they collaborate with retain as much foreign currency as possible and earn the highest possible profits on positive exchange differences and the realistic dinar exchange policy, and depression of the dinar's value. Such profit is not the result of labor. In fact, today it is difficult to determine who all contributes to exports. The Yugoslav economy is very interrelated in the developmental sense and concerning current operations, but formulating the policy so that only the exporter retains the foreign currency, without concern for what else happens during production, for every step along the production chain, provides no material basis or conditions for rational operations.



[Question] What should be done to advance the foreign exchange system and make it correspond to its function?

[Answer] I think that changes must be oriented, first, to create a mechanism by which the foreign exchange would have to be sold immediately to the bank, which would create foreign currency inflow, and second, to determine priorities held by exporters for purchases, and where they exceed the planned export volume, the extra rights to more foreign exchange than others. This incentive would be very effective in increasing exports. At the same time, part of the resources of the total amount of foreign exchange should be set aside for associated labor organizations that do not export enough, for their domestic capital needs, as well as for associated labor organizations that do not export anything, yet still have needs for spare parts. These organizations would include energy producers, agriculture and herding, where exports are insufficient due to domestic needs.

The stimulus for exporters should be a realistic dinar exchange rate, in which policy would include stimuli for associated labor organizations in the official dinar exchange rate. Besides that, we must always assure the priority of the exporters to receive foreign exchange, with the exporter not understood to be only the final producer, but the entire production chain that leads to exported goods. To be brief, there is no effective export if the entire production chain is not involved, including associated labor organizations that produce raw materials, semimanufactured goods, and final products. This understanding should be regulated by law and by 1985, organizations should be supplied with clear policies regarding the foreign exchange system. This policy would provide a timely beginning for eliminating the problems that the foreign exchange system creates for associated labor and eliminating the considerable damages that we endure as a society today.

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